# Profession Influences Investment Psychology

**Bhayani Mital, Malkar Vinod, Bobade Priyanka**.

***Abstract*: Investment psychology is area of study which can be traced back to 17th Century. Understanding investors psychology becomes critical part of analyzing investment market. Securities analysis is broadly classified in two school of thoughts, where one expects markets to efficient and investors to be rational the other though proposed the market to me inefficient and investors to be irrational. This paper attempts to study the irrationality in investment psychology by applying theories of behavioral finance. Also ample amount of research has been conducted on profession and impact of various facets of life and behavior. Primary aim of this research paper is to study weather Propensity of behavioral finance theories varies with Profession. The author has attempted to study weather profession dictates investment psychology. The study is based on empirical research. Study of 1200 respondents was conducted to test their inclination towards various theories of behavioral finance. This tendency towards specific theory explains their irrationality towards investments or publicizes their psychology towards investment. The result of empirical research concludes that profession can influence the investment psychology. The results may help investment firms to come up with investment strategies based on profession of investor.***

***Index Terms*: Behavioral finance, Profession, Investors psychology, Individual Investors.**

## I. INTRODUCTION

The Behavioral finance is study of investor's psychology and its role in making financial decisions**.** Looking back in research of academic finance overall and security analysis in particular majority of financial market analysis was based on efficient market hypothesis. EMH theory rules out the possibility of trading and beating the market returns by analysis as it expects the markets to be fully efficient. It was proven with lot of empirical research that security prices reflects complete information and the prices are adjusted as an when the information gets updates leaving no room for gaining profits from current market information. On the other hand, in last 3 decades one of the promising alternative ways of looking towards financial market analysis has emerged that is behavioral finance. EMH suggests all the investors are rational in making investment decision; this can be challenged from the fact that markets always shows systematic deviations from efficiency. Investors are irrational which is evident from the fact the securities prices are often deviated from fundamentals. Psychology of investors apart from the all the rational reasons for trading plays a very important role in explaining inefficiency in financial markets. Robert Shiller in his article efficient markets to behavioral finance has stressed very important fact that feedback model can actual drive the market prices apart from its efficiency which is overlooked by the finance research so far. The modern research in finance and investment market has acknowledged the increasing role of behavioral finance in investor's decision. It is accepted universally that apart from logical reasons for selecting a specific class of investment asset, irrational behavior and investors psychology also makes a huge difference. Both practitioners and academicians have seen deviations in financial markets from efficient market hypothesis. This fact shows the presence of some irrational patterns of investment caused due to behavioral finance theories of investments. It would be interesting to know whether this behavioral finance theory equally impacts all the investors or varies with profession.

**Origin:** Author of this paper observed during 10 years of career in teaching that work life or profession of individuals gradually impacts their mindset. This mindset or psychology can impact investment decisions as well, considering the role of behavioral finance in selecting investment avenues.

## II. LITERATURE REVIEW AND GAP ANALYSIS

The literature on behavioral finance can be traced back to sixteenth century, which was brought into light by Mackay, C. Memoirs though extraordinary popular delusions and the madness of crowds. Original. Minneapolis, New York: Dover Publication Inc. 2003. (Originally published 1841). He gives an explanation of 3 incidences namely the Tulip bubble in 1630's, the South Sea company bubble from 1711to1720 and the Mississippi Company bubble from 1719 to 1720. Amongst these, the Tulip bubble, popularly known as the tulipomania is the highly cited incidence, which paved the role of behavioral finance as against efficient and rational market The subject of behavioral finance theories has grow to be more rife during the past three decades. Catherine New (2011) explained with the instance of Dr. Maggie Baker who expected to earn more profit through the investments in stocks. She chose to invest in technology sector, which was popular amongst investors. Nevertheless, the price bubble of the technology sector busted leading to huge loss to Dr. Baker .She asserted to the fact that psychological factors influenced her decision making. Financial bubbles have continually endangered the world. The recession of mid 2000's is a great example of financial bubble boom and burst leading to global financial crisis. (Grapher, 2012) addressed the relevance of behavioral finance and it part in financial adversity. People used to make lot of money in investment market irrespective of their knowledge in investment market Loss baring investors are desperate to know the reason for their failure and Behavioral finance provides a clue for understanding investor behavior which escorts to economic crisis (Statman, 2009).

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Finkelstein and Greenwald (2009) proved people invest according to market trends rather than their original investment tactics. According to EMH all the security prices reflect all the available information concerning certain company's financial assets (Welch, 2000) EMH may not cover all the aspects of investing (Robert J. Schiller 2003) questions the Efficient Market Hypothesis as an insufficient theory. He proposes additional theories are needed in order to interpret investor behavior. Hott (2009:35) advocated that decisions made by one investor that are influenced by the decisions of other investors are affected by herding behavior. Therefore, all the investment decisions that are not solely based on the financial information of a certain corporation are to be read via Herding Theory. Kaustia, Alho, Puttonen, (2008) their survey revealed that students have a tendency of anchoring when it concerns their long-term stock return expectations. Anchoring Theory is functional when an investor values current information over a company's historical data. Uneducated investors are most probable to have anchoring tendencies. The information used for decision-making is often gained from unofficial sources (magazines, web sites etc.) Singh, (2012). According to Sudhir Singh (2012) and Ranjit Singh (2009:89) an irrational tendency on keeping value-losing securities is to be interpreted via Regret Theory. According to Regret Aversion, investors avoid the painful feeling of making losses. Therefore, they try to hold their value losing securities in order to avoid converting their assets into cash. After making poor investment decisions investors may avoid certain industries that have performed poorly or caused them losses in the past.

**Research Gap:** Two prominent thoughts of analyzing investment markets namely Efficient market hypothesis which expects investors to be rational and behavioral finance which supports irrationality in investment has its own supporters and evidences to prove the same. But when it is studied with time aspect it is found that 3 decades ago EMH used to be the prominent approach and formed the base for analyzing markets unanimously, but majority of the research in academic finance over last three decades have supported behavioral finance and explained irrationality in market with various evidences**.** As the previous studies have proved most of the investor's issues are allied to psychological aspects of investing. The author has traced the gap that these psychological aspects of investors or irrationality towards investment vary in different categories of investors. It is proved in many empirical research studies on investment behavior that demographic factors affects investment psychology up to a considerable extent. It would be interesting to know if these irrationalities differ with profession of the investor. Some studies have also proved that work life of a person tends to alter his psychology, author of this paper have keen interest in finding if these work life impacts investment psychology of investors. Irrationality of investors or their psychology will be studied by theories of behavioral finance and work life's impact would be studied based on profession of the respondents. One of the hypotheses of efficient market hypothesis state that investors are uniformly irrational can also be challenged with this piece of research

## III. OBJECTIVES OF THE STUDY

**Primary objective:**

**a)**This research attempts to gauge variation in propensity if any, of behavioral finance theories amongst investors belonging to varied professions.

**Secondary objectives**:

b) To study investment psychology of the investors belonging to varied profession

c). To study inclination of investors towards theories of behavioral finance.

d) To find if work life explains irrationality in investment decision.

## IV. HYPOTHESIS

*a) Profession dictates investment psychology*

**a0:** Investment psychology dose not vary with profession

**a1:** Investment Psychology varies with profession

## V. SCOPE AND METHODOLOGY

The scope of this research is limited to four theories of behavioral finance namely anchoring, prospect, regret and herding. The scope will also be limited to individual (retail) investors. **Methodology:** Empirical research is used to conduct the study. The data is collected with the help of structured questionnaire to test the respondent's psychology towards investment. The questions framed in order to measure the inclination towards specific theories of behavioral finance. Stratified random sampling is used in order to include representatives from two groups of professions. The sample represents individuals from two broad groups of professions such as Salaried Individuals ( One whose income is depend on organization owned by someone else) and Self Employed or Businessman(one who earns Independently) Sample size: 1200 ( 400 Self Employed/businessman and 800 Salaried)

## VI. SIGNIFICANCE

Most of the investors issues are allied to psychological phases of investing .The importance of gaining insights on inclination of specific professional category of respondents can be useful for studying the extent up to which financial markets would be exposed to irrational investment behavior. The exposure can be measured by taking into consideration of composition of total investors based on occupation. The study will be contributing to existing literature on behavioral finance

## VII. RESULTS AND DISCUSSION

The questions were framed in order to study investment behavior and their inclination towards specific theories of behavioral finance. This paper attempts to study weather profession dictates the behavior of individuals making them more inclined towards any one or more of Herd(Follows someone else for investment decisions, Anchor( Gives more importance to the latest information and fails to utilize all the information available), Regret (and Prospect theory.


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To understand if there is significant difference between the attitude towards investment both group of investors (Salaried and Businessman), there were 9 statements derived and both types of respondents were asked to either agree or disagree on 5 point scale. These statements will reveal whether they have positive or negative attitude towards specific irrational behavior. Considering the responses weighted averages of combined 9 questions is obtained separately for Salaries and Businessmen groups along with their standard deviation. The data is shown below:

**Table No .1. : Mean score of behavior towards investment.**

| Groups | Mean Scores | S. D. | Sample Size |
|---|---|---|---|
| Businessman/Self-employed | 2.7642 | 1.0934 | 400 |
| Salaried | 2.6842 | 1.0699 | 800 |

To compare means of 2 different groups for significant difference large sample test is applied at 5% level of significance and 1 degree of freedom. The obtained value of test statistics 3.176 is found significant with p-value 0.000. Hence it can be concluded that there is significant difference between investment psychology of both groups of investors.

**Table no 2**. **Statements to judge investors investment psychology**

| | |
|---|---|
| 1 | News or magazines are major sources while making investment decisions |
| 2 | Public reviews about profit-making investments is often correct |
| 3 | My investment decisions are mostly based on historical financial data of company |
| 4 | My investment decisions are based on company recent financial data |
| 5 | I give more importance to company recent data than historical one |
| 6 | I always consult investment advisor before making my investment decision |
| 7 | I feel my investment knowledge is less than my friends & family |
| 8 | I avoid investing in stocks bearing high Volatility |
| 9 | I prefer to hold loss making securities and wait for gaining better value in future. |

- Statement numbers 1, 2, 6 and 7 tests inclination towards herding behavior. Responses voting “Strongly agree” on any of the questions are supposed as strongly inclined towards herd behavior.
- Statements 3, 4, and 5 judge inclination towards anchoring theory
- Respondents who strongly disagree with statement 3 and agreeing with statements 4 and 5 are likely to have anchoring tendencies.
- Inclination towards Prospect Theory was tested in statement number 8 and 9$^{th}$ statement tested regret theory.

**Table No.3: Comparison of Mean of psychology towards investment of both groups of professions**

| Groups | | Q1 | Q2 | Q3 | Q4 | Q5 | Q6 | Q7 | Q8 | Q9 |
|---|---|---|---|---|---|---|---|---|---|---|
| Businessmen | Mean | 2.32 | 3.05 | 3.39 | 2.82 | 2.55 | 2.84 | 2.3 | 2.84 | 2.79 |
| | N | 400 | 400 | 400 | 400 | 400 | 398 | 398 | 400 | 400 |
| | Std. Dev | 1.121 | 1.196 | 0.86 | 0.604 | 1.017 | 0.894 | 1.226 | 1.267 | 1.38 |
| Salaried | Mean | 2.27 | 3.24 | 2.6 | 2.6 | 2.79 | 2.35 | 2.62 | 3.04 | 2.64 |
| | N | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 |
| | Std. Dev | 1.031 | 1.13 | 1.1 | 1.019 | 1.089 | 1.024 | 1.029 | 1.069 | 1.032 |
| Total | Mean | 2.29 | 3.17 | 2.87 | 2.68 | 2.71 | 2.51 | 2.52 | 2.98 | 2.69 |
| | N | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 |
| | Std. Dev | 1.062 | 1.156 | 1.092 | 0.907 | 1.072 | 1.009 | 1.109 | 1.142 | 1.162 |

**Discussion:**

The above table shows that for statement number 3 there is huge difference between the means of Businessman and Salaried. Mean for Businessman indicate that they don’t agree to this statement with mean 3.39 while salaried individuals agree to this statement. It means that salaried individuals shows tendency towards anchor theory while businessman are reluctant for it.

Comparison of means from statement number 2 indicates that Businessmen(3.05) are neutral on the statement whereas salaried are more close to disagree it with mean 3.24. This shows they don’t trust public reviews about investments. The means for Statement number 4 indicates that salaried find it more satisfying to use company’s recent financial data, businessmen are neutral for this statement. This strongly suggested inclination of salaried individuals towards Anchor theory of behavioral finance. Businessmen agree to the statement number 6 (2.35) and Salaried individuals are close to neutral about it, this shows inclination of businessmen towards herding theory.

Statement no. 7 indicates that Businessmen believe their friends and family are more knowledgeable in investment matters and trust them for investment decisions rather than self which signifies their inclination towards herding theory, whereas salaried are close to neutral about it. Comparison of mean form statement number 9 indicates salaried individuals prefer to hold loss making stocks in expectation of better returns in future which suggests their tendency towards regret theory of behavioral finance, whereas businessmen are neutral about it.

## VI. CONCLUSION

Over all the results indicates that Businessmen group shows tendency towards herding theory of behavioral finance whereas Salaried individuals shows inclination towards Anchor and regret theories. It is concluded that both the professional category respondents have showcased their irrational behavior towards investment in their own ways. Self earning group (Businessmen) could be seen showing their dependence for investment decisions on others, while salaried are found anchoring their own investments.


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Results observed indicates that one who depends for income on others is confident in making own investment decisions while one who is self dependent for income relies on others opinion for making investment.

It is observed that profession dictates investment psychology making self earners (Businessmen) depend for investment while salaried individuals observed to be more independent for investment affairs. The outcome of the study has revealed that some classes of respondents are more inclined to specific behavioral finance theories. Based on the patterns observed in data author concludes that propensity of behavioral finance theories varies with profession.

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